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8 MANAGED HEALTH CARE  
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12 Attorneys for Complainant

13 BEFORE THE DEPARTMENT OF MANAGED HEALTH CARE  
14 OF THE STATE OF CALIFORNIA

15 IN THE MATTER OF:

16 PacifiCare of California, Inc.,

17 Respondent.

Enforcement Matter No.: 07-227

CEASE AND DESIST ORDER RE  
SEQUOIA DIRECTLY  
CONTRACTED NETWORK

(Health and Safety Code §§1341,  
1344, 1341.8, 1360, 1386(b)(7),  
1391)

18 To: PacifiCare of California  
19 5995 Plaza Drive, MS CA 112-0267  
20 Cypress, CA 90630-5028

21 The Director of the Department of Managed Health Care, by and through her  
22 designee, Assistant Deputy Director Amy L. Dobberteen, after investigation,  
23 determines as follows:

24 I. PARTIES

- 25  
26  
27 1. The Director of the Department of Managed Health Care is vested with the  
28 responsibility to administer and enforce the Knox-Keene Health Care Service  
Plan Act of 1975, Health and Safety Code, section 1340 et seq.

FILED  
MAY 17, 2007

DEPARTMENT OF MANAGED HEALTH CARE  
By A. Dobberteen  
Filing Clerk

- 1 2. PacifiCare of California is a health care service plan licensed under the Knox-  
2 Keene Act, license number 933 0126, and is regulated by the Department of  
3 Managed Health Care.  
4

## 5 II. STATUTORY AUTHORITY

- 6  
7 3. The Knox-Keene Act prohibits deceptive solicitations by health care service  
8 plans. No plan shall use or permit the use of any advertising or solicitation  
9 which is untrue or misleading, or any form of evidence of coverage which is  
10 deceptive. (Health & Saf. Code §1360.)  
11 4. The Director is empowered to take disciplinary action against a plan which  
12 engages in conduct constituting fraud or dishonest dealing or unfair  
13 competition, as defined by section 17200 of the Business and Professions  
14 Code. (Health & Saf. Code §1386(b)(7).)  
15 5. The Director is empowered to enforce compliance with the Knox-Keene Act.  
16 (Health & Saf. Code §1391.)  
17

## 18 III. FACTUAL BACKGROUND

- 19  
20 6. In or about December 2005, PacifiCare removed Sequoia Directly Contracted  
21 Network ("Sequoia") providers from its provider directory. Notwithstanding  
22 the decision to remove Sequoia from its directory, PacifiCare continued to  
23 permit enrollees to see Sequoia Network providers.  
24 7. In or about June 2005, PacifiCare notified the Sequoia Directly Contracted  
25 Network of its decision to terminate its contract with Sequoia effective  
26 December 31, 2005. In or about December 2005, PacifiCare closed its panel  
27 removing Sequoia providers from its provider directory. Notwithstanding its  
28 decision to terminate the contract and to remove Sequoia from its provider  
panel, PacifiCare continued to treat Sequoia as a contracted provider,

1 authorizing enrollees to visit Sequoia providers, but failing to inform enrollees  
2 that Sequoia providers were no longer intended to be panel or contracted  
3 providers.

- 4 8. In or about October-November 2006, various individuals enrolled and re-  
5 enrolled in PacifiCare's commercial HMO plan, selecting physicians within the  
6 Sequoia network as their health care providers. At the time of their enrollment,  
7 these enrollees and re-enrollees were not informed that Sequoia was no longer  
8 a PacifiCare HMO-network provider, despite PacifiCare's decision to  
9 terminate the Network in June 2005. PacifiCare provided no notice to its  
10 enrollees of its planned termination of the Sequoia contract. Consequently, at  
11 the time of enrollment/re-enrollment in October-November 2006, PacifiCare  
12 withheld information which a reasonable enrollee or re-enrollee would expect  
13 to affect his or her decision regarding benefits, service charges, or other  
14 advantages.
- 15 9. In or about February 2007, PacifiCare notified Sequoia that it would terminate  
16 its contract effective April 30, 2007.
- 17 10. The Department has received complaints from PacifiCare enrollees stating that  
18 PacifiCare provided no notice to them of its decision to terminate the Sequoia  
19 Network prior to the enrollment/re-enrollment period.
- 20 11. The Department has received at least one complaint from a Sequoia provider  
21 concerning PacifiCare's termination of the Sequoia Network contract and its  
22 impact on PacifiCare enrollees who had chosen Sequoia providers.

#### 23 IV. FINDINGS

- 24
- 25 12. The Director finds that PacifiCare enrollees who believed Sequoia providers  
26 were contracted providers during the enrollment period were deprived of the  
27 benefit of their bargain, deceived, or otherwise misled, and that PacifiCare's  
28 failure to provide notice of its planned termination of Sequoia to the enrollees

1 constituted fraud or dishonest dealing or unfair competition because a  
2 reasonable enrollee would have found the Sequoia Network termination  
3 relevant to the enrollee's choice and expected benefits from coverage. (Health  
4 and Safety Code sections 1360, 1386(b)(7), Business and Professions Code  
5 section 17200.)

- 6 13. The Director finds that PacifiCare enrollees who believed Sequoia providers  
7 were contracted providers during the enrollment period were misled and  
8 deceived by PacifiCare's actions within the meaning of Health and Safety  
9 Code section 1360.

### 10 ORDER

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12  
13 THEREFORE, the Director of the Department of Managed Health Care, by  
14 and through her designee, Assistant Deputy Director Amy L. Dobberteen, pursuant  
15 to Health and Safety Code section 1391, **ORDERS AS FOLLOWS:**

- 16  
17 1. PacifiCare shall cease and desist from misleading its enrollees, from  
18 withholding material information from enrollees;  
19 2. PacifiCare shall continue to authorize services and allow access to the Sequoia  
20 Directly Contracted Network to those PacifiCare enrollees whose coverage  
21 originated or renewed during the October-November 2006, open enrollment or  
22 later, until at least one calendar year from the date of initial coverage or  
23 renewal of said enrollees;  
24 3. The terms of the just-expired PacifiCare-Sequoia Network contract, including,  
25 but not limited to, fees for service between PacifiCare and Sequoia, shall  
26 continue in full force for one calendar year from the date of initial coverage or  
27 renewal of coverage of those enrollees identified in the immediately preceding  
28 Paragraph 1, except to the extent any such term is inconsistent with this Order;

1 4.) PacifiCare shall notify all affected enrollees of the availability of Sequoia  
2 providers as contracted providers within two weeks from the date of this Order.  
3

4 Dated: May 17, 2007

DEPARTMENT OF MANAGED  
HEALTH CARE

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7  
8 By: 

9 AMY L. DOBBERTEEN  
10 Assistant Deputy Director  
11 Office of Enforcement  
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